

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Federal-State Joint Board on	)	
Universal Service	)	CC Docket No. 96-45
	)	
Proposals to Modify High-Cost	)	
Universal Service Support	)	

To: The Joint Board

**COMMENTS OF  
SANDWICH ISLES COMMUNICATIONS, INC.  
TELALASKA, INC.  
YUKON TELEPHONE COMPANY, INC.**

Sandwich Isles, TelAlaska, and Yukon Telephone (STYu) hereby submit their comments on the proposals to modify the Commission's rules relating to high-cost universal service support, as requested by the Joint Board in its Public Notice in the above-captioned proceeding. In the Public Notice, the Joint Board seeks comment on 4 proposals attached to the Public Notice.

STYu will comment generally on several aspects of the proposals, and remind the Joint Board that the Telecom Act of 1996 requires the Commission to identify and implement measures uniquely designed to ensure universal service for insular areas. None of the proposals and none of the Commission's actions to date have focused on the special needs of insular areas. Insular areas are

clearly within the bright lines identifying rural areas requiring “specific, predictable, and sufficient” universal service funds (USF).

## **I. STYu – Introduction**

STYu are rural Eligible Telecommunications Carriers (ETCs) operating wireline telecommunications systems in Hawaii and Alaska. STYu are currently receiving federal USF, which, along with their participation in the NECA pools have enabled them to deploy modern telecommunications infrastructure in very remote, high-cost service areas, and offer affordable telecommunications services to consumers residing in these remote/insular areas. Sandwich Isles currently serves approximately 1400 subscribers in 9 exchanges located on 5 of the Hawaiian Islands. TelAlaska serves approximately 13,000 subscribers in 23 exchanges in some of the most remote service area of Alaska. And Yukon Telephone serves approximately 700 subscribers in 3 exchanges located in the Interior of Alaska and the Prince William Sound.

## **II. A Review of the State Plans**

### **A. Several Aspects of the State Plans Should Be Implemented**

The measure against which all plan concepts must be evaluated is the provision of the Telecom Act requiring that USF be “specific, predictable, and sufficient.” In other words, USF mechanisms must provide both the rural Local Exchange Carrier (RLEC) and the lender with a reasonable expectation that an investment made will be returned – must provide the level of confidence

necessary to actually generate significant levels of investment in rural America. Infrastructure must be deployed in rural America that is capable of delivering defined levels of universal service, as well as advanced, i.e. broadband services.

STYu agree that broadening the payer base is the first step toward stabilizing USF. Intrastate revenue should be included in the contribution base. However, alternative contribution methodologies should be explored – numbers-based or connections approach – that are easy to administer and which create a level playing field for all retail service providers. Whether it's easier and more equitable to track revenue or customer accounts/numbers is a question deserving a much greater focus. And which method will hold up over time as the superior funding mechanism should be analyzed and evaluated.

STYu also agree that USF support mechanisms that incorporate embedded cost are fundamental to ensuring the continuation of universal service. If embedded cost/investment is delinked from the funding method, there can be no certainty that support will be “sufficient.” And caps on funds are counterproductive to achieving the “sufficiency” objective. The role of a “cap” as an incentive for greater efficiency works well in theory, but not in the real world. For example, during previous explorations of cost models, the Rural Task Force demonstrated that rural costs among study areas reflect huge swings and variation. Therefore, attempting to establish a cap or limitation of cost in some accounting classifications will undoubtedly result in some study areas incurring significant and arbitrarily induced shortfalls of necessary support funds. The

result will be some rural Americans without a carrier of last resort and without universal service.

STYu agree that the “Portability” rules should no longer operate from the wireline ILEC cost per loop. Again, support for CETCs must only be sufficient. Many wireless CETCs drawing the RLEC support in carved out service areas actually serve footprints similar in scope and scale to wireline RBOC study areas within a state. Business plans for the CETCs never required USF as a necessary component for feasibility. In fact, many CETCs entered markets and were operating a number of years before windfall “portability” rules came on the scene.

STYu endorse moving to support mechanisms for CETCs that are based on their costs. The Commission should request input from the industry regarding methods that would be easy to administer and provide equitable outcomes, particularly when comparing large wireless carrier support to support for non-rural ILECs serving in similar geographic/market areas.

STYu are particularly in agreement with plan proposals that recognize that RLECs operating in insular areas may have needs above and beyond the norm, especially when fulfilling an obligation to provide universal service. Congress recognized this fact when it passed the Telecom Act. Several of the state plans allude to special insular needs, e.g. exemption from the requirement to combine study areas in insular areas. Also, repeal of the “parent trap” rule (54.305) may have particular applicability to insular areas. STYu will provide further discussion of “insular” needs in sections III and IV, which follow.

## **B. Several Aspects of the State Plans Should Be Avoided**

The nation needs a strong federal USF. If the fund is distributed to the states in the form of block grants, as the state plans propose, achievement of federal policy goals cannot be assured. In addition, adding a second layer of administration and forced state rate cases will result in higher program costs; foster delays in receipt of funds, and ultimately, undermine continued investment in rural America. Setting a statewide average cost as the qualification threshold for universal service funds will not necessarily result in federal funds reaching carriers of last resort serving high-cost rural areas. This is exactly the reason why the present day rural fund is superior in operation to the non-rural fund. RLECs, today, receive funds linked to their capex requirements, which are derived solely from their rural service area needs.

Non-rural and rural carriers “competing” for limited federal USF within a state is a Solomon-like solution to the problem of funding universal service. Unfortunately, splitting the universal service baby will have the effect of killing universal service in some states. Undoubtedly, the rural areas will be left with insufficient funds for construction of quality rural networks. And, the reality is that funds paid to non-rural companies for their high-cost rural service areas, although intended for the benefit of the rural Americans residing in those areas, cannot be easily tracked to those areas.

Although Alaska has a state USF in place, STYu believe that encouraging the states to create their own universal service funds will necessarily weaken the federal fund over time. This is because those states that can easily manage their

universal service requirements, i.e. those with large populations, many urban centers, etc., will feel a lesser need to participate in the federal program and will likely press for a downsizing of the federal fund. In the other extreme, however, are those low population rural states, i.e. states generally west of the Mississippi that will be unable to muster sufficient support funds at the state level, and will always require significant help from the federal program. Given these two scenarios, a strong federal program is necessary for all Americans to benefit from ubiquitous broadband telecom infrastructure.

The success of the federal program will be dependent upon its ability to avoid casting weak links, i.e. under funding rural states incapable of meeting the Congressional mandate for universal service on their own. To avoid this outcome, STYu conclude that a centralized approach must be taken to ensure “sufficient” federal funding for a timely deployment of a ubiquitous, nationwide broadband capable network. The entire nation should equally shoulder the costs of a nationwide network, since benefits accrue to all businesses and residents that use a seamless network – communications is both delivery and receipt.

### **III. Insular Nature of Hawaii and Alaskan Bush**

In contrast with the “Lower Forty-eight,” the Hawaiian Islands and Alaska are lacking the highway systems that set out a natural grid that connects rural communities with urban centers throughout America. This highway grid system makes even the most remote rural points essentially between major urban centers within the “Lower Forty-eight.”

The interstate and state highways that were the pathways for deployment of a modern-day Information Superhighway have no counterpart in Hawaii and Alaska. Instead, construction of facilities can only be accomplished by incurring the costs necessary to penetrate or span oceans and bays, volcanic islands, rugged mountains, and vast wilderness regions to reach pockets of civilization. These small villages must be linked to other consumers and businesses throughout America to fulfill the mandate of the Telecom Act of 1996.

The “Lower Forty-Eight” also has the advantage, even in the most rural western states, of large numbers of incumbent RLECs serving side-by-side in contiguous franchise service areas. Taken together these franchise service areas comprise the vast majority of a state's inhabited geographic area. The RLECs operating in these rural areas have banded together in many instances to create statewide networks (e.g. Iowa Network Services, Minnesota Equal Access Network Services, and others) for the purpose of linking the small towns and rural communities throughout the state with the urban centers.

Contrast again Hawaii. Only one small carrier, Sandwich Isles Communications, Inc. has a business plan and commitment to aggressively deploy telecommunications infrastructure and serve the rural areas of Hawaii. Sandwich Isles has designed a rural network of approximately 700 miles of fiber transport, both terrestrial and undersea, which will connect its noncontiguous service areas throughout the 6 major Hawaiian Islands. These facilities will serve as a “backbone” and effectively ensure the delivery of telecommunications services throughout the neighbor islands.

Contrast again Alaska. TelAlaska and Yukon Telephone serve the Alaskan bush. And given the vast wilderness and distances between villages, each carrier must go it alone, generally relying on satellite links to provide transport from these remote locations to the more “urban” population centers and the larger carriers located primarily in Anchorage.

#### IV. **Support Needed in Insular Areas**

The United States Congress passed the Telecom Act of 1996 and, in addition to promoting competition, the Act also equally recognizes the need to ensure universal service. Universal service can be summed up as providing the opportunity for every American to have access to telecommunication and information services at affordable rates. Universal service - maximum connectivity - was reaffirmed as a national public policy goal. Section 254(b)(3) of the Act reads as follows:

*(3) Access in rural and high cost areas*

*Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, (emphasis added) and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.*

Congress went a step further in emphasizing the needs of consumers in insular areas in its Joint Explanatory Statement. Therein (Statement at 131) Congress directed the Joint Board and the FCC to consider consumers in insular



areas (emphasis added) when developing support mechanisms for consumer access to telecommunications and information services.

In response to the Telecom Act, the FCC put in place a nationwide system of funding to ensure universal service. Through federal regulatory process the FCC has established support for high-cost loops, for additional high costs associated with the NECA Common Line pool, and for telecommunications switching costs in rural areas. However, the Joint Board and FCC have not yet considered and addressed the additional needs of insular areas, specifically, the neighbor islands of Hawaii and the Alaskan bush. The high cost alone of transporting telecommunication services to consumers in remote areas of Hawaii and Alaska makes telecommunications services unaffordable and, therefore, unavailable.

A lack of quality communications infrastructure will perpetuate an isolated existence for consumers residing in these insular areas. It will slow economic development in these remote areas and lessen overall quality of life, including access to healthcare and education. It will also threaten personal safety during periodic times of natural crises, which might include sub-zero blizzard conditions or tropical hurricanes. In sum, without quality infrastructure, a connection to the broader community, and most certainly a global community, will be absent, taking away the opportunity for individuals and communities to grow and develop through participation.

In addition, the strategic location of these states makes availability of a robust communications network critically important to national security. The nation can ill afford to short-change the deployment of some of the nation's most critical

infrastructure. A broadband communications network in Hawaii and Alaska must be available to drive our nation's defense systems. Looking closely at the federal USF program to ensure "specific, predictable, and sufficient" USF for insular areas is long overdue.

## **V. Conclusion**

The nation needs a strong federal USF. STYu believe that encouraging the states to create their own universal service funds will necessarily weaken the federal fund over time. If the fund is distributed to the states in the form of block grants, as the state plans propose, achievement of federal policy goals cannot be assured. Non-rural and rural carriers "competing" for limited federal USF within a state will have the effect of killing universal service in some states. A centralized approach must be taken to ensure "sufficient" federal funding for a timely deployment of a ubiquitous, nationwide broadband capable network.

The measure against which all plan concepts must be evaluated is the provision of the Telecom Act requiring that USF be "specific, predictable, and sufficient." STYu agree that broadening the payer base is the first step toward stabilizing USF. STYu also agree that USF support mechanisms that incorporate embedded cost are fundamental to ensuring the continuation of universal service. STYu agree that the "Portability" rules should no longer operate from the wireline ILEC cost per loop and endorse moving to support mechanisms for CETCs that are based on their costs.

STYu are particularly in agreement with plan proposals that recognize that RLECs operating in insular areas may have needs above and beyond the norm, especially when fulfilling an obligation to provide universal service. However, the Joint Board and FCC have not yet considered and addressed the additional needs of insular areas, specifically, the neighbor islands of Hawaii and the Alaskan bush. Looking closely at the federal USF program to ensure “specific, predictable, and sufficient” USF for insular areas is long overdue.

Respectfully submitted,

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